



**March 2006**

Colorado PERA continues to closely monitor all proposed legislation that would change any PERA benefits. The following is a brief update of legislation of interest to PERA members.



## **Senate Bill 06-174: Public Employee Pension Benefits (PERA Proposed Legislation)**

Introduced by Sen. Paula Sandoval (Denver), the following is a summary of PERA's proposed legislation:

### **Changes Affecting Current Members**

- Limit "spiking" of salaries for Highest Average Salary (HAS) calculation.
  - Includes members' voluntary pre-tax contributions to IRC Section 125 and 132 Plan expenses as salary for PERA purposes.
  - Tightens the limit on salary increases included in the calculation of the three-year HAS, applicable to benefits that become effective on or after January 1, 2009.
- For current PERA members under age 45, and for new members, limit PERA's subsidy toward retiree health premiums prior to age 65 to a maximum of \$115, with an effective date of January 1, 2007.

### **New PERA Benefits for PERA Members Hired January 1, 2007, or Later**

- Called "PERA Centennial"
  - 2.1 percent of HAS per year of service.
  - HAS based on highest 5 years of salary.
  - No guaranteed annual increase after retirement. A portion of the employer contribution (0.5 percent of salary) is earmarked for a fund to provide future COLA increases.
  - PERA Centennial members will contribute 7 percent of salary.
  - Safeguards included to ensure PERA Centennial plan remains actuarially sound into the future.
- Employees hired before January 1, 2007, remain in "PERA Pioneer"
  - 2.5 percent of HAS per year of service.
  - HAS based on highest 3 years of salary.

- Automatic increase of 3.5 percent per year after retirement; (lower of CPI or 3 percent per year for members hired July 1, 2005, through December 31, 2006).
- PERA Pioneer members continue contributions of 8 percent of salary.

### **Funding of PERA Benefits**

- Accelerate current phase-in of employer Amortization Equalization Disbursement (AED) payments.
  - Make scheduled increases 0.5 percent of salary rather than 0.4 percent of salary for each year 2008–2011, and add a 0.5 percent of salary AED increase for 2012.
- Change statute on unfunded liability amortization period to reflect that a maximum amortization period of 30 years shall be deemed actuarially sound.
- Safeguards are included to ensure actuarial soundness for PERA Centennial. Contributions by PERA Centennial members and employers increase in tandem if the funded ratio for PERA Centennial benefits declines below 90 percent. If member contributions eventually reach a maximum of 10 percent of salary, the General Assembly would have the authority to reduce future benefits for PERA Centennial members.
- Eligible State employees hired in 2007 or later who elect a defined contribution plan (either the State DPA's plan or PERA's) contribute 7 percent of salary to their plan and receive a matching amount from the employer contribution.

**Status:** SB 174 has been assigned to the Senate State Veterans & Military Affairs.

**PERA's Position:** Support.

## Senate Bill 06-162: Retirement Benefits For Public Employees

Sponsored by Sen. Dave Owen (Greeley), this bill recommends the following:

- Change the eligibility for unreduced service retirement for new hires, and for current members under age 40 and not vested by January 1, 2007, to require 30 years of service at age 60, or 5 years of service at age 65, for unreduced benefits.
- Prevent any annual increases in the PERA monthly benefits to members hired on or after January 1, 2007, unless PERA is overfunded (assets equal to at least 100 percent of liabilities) and at least two-thirds of the PERA Board approves the increase.
- Allow newly hired members of PERA, even those outside of the State Division, to join the defined contribution plan instead of the PERA defined benefit plan.

- Preclude the PERA Board from using in-house counsel or independent outside counsel for legal advice. Legal advice to the Board would come from the Attorney General.
- Change the PERA Board to an 11-member board, including five members elected by PERA members and retirees, four appointed by the Governor, and the State Auditor and State Treasurer.

**Status:** SB 162 has been assigned to the Senate State, Veterans & Military Affairs Committee.

**PERA's Position:** No position until Board consideration.

## House Bill 06-1083: Public Employee Retirement Plans

The House Minority Leader, Rep. Joe Stengel (Littleton), introduced HB 06-1083, which was designed to overhaul PERA in line with the goals of the Americans for Prosperity, a Washington-based group.

The bill required that all new employees hired by PERA employers join a defined contribution (DC) plan beginning in 2008. It would have also eliminated the current PERA Board. A new Board would consist of seven gubernatorial appointees, as well as the State Treasurer and State Auditor, who would be ex-officio (but voting) members. Additionally,

the bill would have allowed the Legislature to reduce benefits as needed for all members not eligible for retirement to attain an amortization period of 30 years or less.

PERA estimated that this bill would have a substantial fiscal impact on the state budget.

**Status:** HB 1083 was postponed indefinitely (in effect killing it) by the House Business Affairs and Labor Committee.

**PERA's Position:** Oppose.

## Senate Bill 06-6: Deny PERA Employment to Convicted Felons

This bill would clarify PERA's ability to include a criminal background check of job applicants with other checks that are part of the PERA employment process. Currently, except in a limited number of cases, having a felony conviction, in and of itself, does not preclude an applicant from public employment. This bill would clarify that PERA may consider an applicant's criminal history when making employment decisions. The bill is being sponsored by the

Legislative Audit Committee and prime sponsors are Sen. Stephanie Takis (Aurora) and Rep. Al White (Winter Park).

**Status:** This bill was passed by the Senate and is in the House Business Affairs and Labor Committee.

**PERA's Position:** Support.

## House Bill 06-1329: Clarify Retirement Plan Election Options

This bill would allow Judges to participate in the DC choice program currently available to certain State employees who were hired on or after January 1, 2006. Rep. Ted Harvey (Highlands Ranch) sponsored this bill.

**Status:** HB 1329 was tabled to May 13, 2006 by the House Business Affairs & Labor Committee.

**PERA's Position:** Oppose.

## Proposed Ballot Initiative #81

A ballot proposal was filed with the Legislative Council for the November 2006 general election. If passed, the initiative would completely overhaul the current PERA Defined Benefit system starting January 1, 2008. Changes would include:

- Abolishing the current PERA board on December 31, 2007, giving direct oversight authority of a newly created board to the State Treasurer.
- Establishing a new board consisting of the State Auditor, the State Treasurer, and seven trustees appointed by the Governor.
- Fixing a maximum amortization period of 30 years for actuarial soundness in the defined benefit plan.
- Defining "actuarial necessity" as occurring when the 30-year amortization period is not met. If actuarial necessity exists, the General Assembly could modify benefits of current members.
- Capping the current employer contribution rates and increasing the employee contribution rates until they are equal to the employer rate.
- Basing the cost of living adjustments for retirees on the Consumer Price Index.
- Creating a defined contribution plan and requiring all new hires on or after January 1, 2008, to become members of the defined contribution plan.
- Allowing current PERA defined benefit members to switch to the defined contribution plan. This would be an irrevocable choice.

- Specifying that employer groups will not be responsible for any financial losses experienced by the members in the defined contribution plan.
- Eliminating the ability of members to reinstate a prior PERA refund from the defined benefit plan.

The proposal says it would protect "the existing benefits for current retirees."

Proponents of the "PERA Reform" initiative resubmitted their ballot proposal on Friday, January 27, 2006. Rather than a summary of their intentions, this filing contains the actual statutory changes.

**Status:** The Review and Comment Hearing portion of the initiative process was held on February 13. Barry Poulson and Christine Burt clarified some of the language in the initiative, responded to questions about the intent of the initiative, formally responded to 14 technical questions and 16 substantive questions raised by the Legislative Legal Services and Legislative Council staff members. The meeting was an open meeting, but there was no public comment or testimony. It is uncertain if the proponents will revise their proposal to incorporate some or all of the legislative staff comments.

**PERA's Position:** No position until Board consideration.